NABE Outlook

NABE MACROECONOMIC FORECAST
May 1988

This report presents the consensus of macroeconomic forecasts made by a panel of professional forecasters drawn from the membership of the National Association of Business Economists. Most of the forecasts submitted were made in late April or early May 1988, and are being reported in May 1988. This survey is one of three taken regularly by NABE; the other inquiries are the Industrial Outlook and the Economic Policy Assessment surveys.

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Current Highlights

* Forecasters have raised their estimates of 1988 again; the median real GNP estimate is 2.9% on the year average basis (versus 2.2% in the prior survey), and over the four quarters of the year a 2.3% gain is expected (versus 2.0% before).

* Real net exports (up by $18.5 billion 1982 dollars) and nonresidential fixed investment (+8.3%) are expected to be the strong sectors; consumer spending is projected to rise a moderate 2.0%.

* Inflation (as measured on the CPI) in 1988 is predicted to be about the same (4.3% over the four quarters) as that in 1987.

* For 1989, the consensus forecast calls for slower real GNP growth (2.2% for the year average and 2.0% over the four quarters) accompanied by somewhat higher inflation (CPI up 4.7% for the year on average, 5.0% over the four quarters).

* The majority of forecasters (57.4%) think the next recession will begin in 1989, roughly the same proportion as in the prior survey.

* At the present time, we do not find sharp differences among forecasters based upon their theoretical framework (Monetarist, Keynesian, etc.), sector of employment, or regional concentration of their company's business.

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TABLE 1
SUMMARY OF NABE MEDIAN FORECASTS

	1987 Actual	1988E Aug 87 Survey	1988E Nov 87 Survey	1988E Feb 88 Survey	1988E May 88 Survey*	1989E May 88 Survey*
Fourth Quarter to Fourth Quarter						
Real GNP	4.0%	2.7%	2.0%	2.0%	2.3%	2.0%
Consumer Price Index	4.5%	4.8%	4.3%	4.2%	4.3%	5.0%
Annual Averages						
Real GNP	2.9%	2.7%	2.1%	2.2%	2.9%	2.2%
Personal consumption expend.	1.9%	NA	NA	NA	2.0%	2.0%
Nonresidential fixed invest.	1.0%	3.4%	2.3%	3.8%	8.3%	2.5%
Net exports	-$135.5	NA	NA	NA	-$117	-$93
Nominal Magnitudes:						
Merchandise trade balance	-$171.2	-$140	-$142	-$150	-$150	-$130
Federal budget deficit (FY)	-$148.9	-$170	-$160	-$157	-$155	-$151
Corporate profits (after-tax)	8.7%	4.0%	2.0%	3.0%	9.1%	4.7%
Real Magnitudes:						
Unemployment rate (civilian)	6.2%	6.0%	6.3%	6.0%	5.6%	5.9%
Industrial production	3.8%	NA	NA	NA	4.5%	2.9%
Housing starts (millions)	1.63	1.60	1.53	1.52	1.51	1.49
Auto sales (millions)	10.3	10.5	10.0	9.8	10.3	10.0
Inflation and Interest Rates:						
Consumer price index	3.7%	4.7%	4.2%	4.0%	4.0%	4.7%
GNP deflator	3.0%	NA	NA	NA	3.1%	4.2%
Treasury bills (3 month)	5.8%	NA	NA	NA	6.1%	6.8%
Treasury bonds (30 year)	8.6%	NA	NA	NA	9.1%	9.5%

NA = Not Available in earlier surveys.
* = Based upon 58 forecasts submitted in May 1988.

1988 Economic Forecast

Real GNP. Economic forecasters have once again raised their sights on 1988. In the May survey of macroeconomic forecasts conducted by NABE, the median projected advance in real GNP from the fourth quarter of 1987 to the fourth quarter of 1988 is 2.3% (versus 2.0% in the February inquiry), and the annual average gain is 2.9% (versus 2.2% in February). NABE forecasters never accepted the recession fears that were ignited by the plunge in stock prices in October 1987; in November, though, the median estimate on the annual average basis had been reduced to 2.1% in the wake of the financial turbulence. The latest estimate of 2.9% is even above the 2.7% that had been projected in August 1987. (All of these forecasts are summarized in Table 1.)

After this survey was taken and tabulated, the Commerce Department revised the first quarter real growth rate to 3.9% from the preliminary 2.3%; this is one of the larger revisions in recent years. No doubt, there will be some further upward adjustments to the NABE consenus in light of the stronger first quarter.

Strong and Weak Sectors. The projected gain in real output is led by net exports and capital spending. Real net exports are projected at -$117 billion (1982 dollars) in 1988, a gain of $18.5 billion from 1987; the direct impact will be to raise GNP 0.5%. Nonresidential fixed investment is expected to increase 8.3% or almost three times the pace of total GNP. By contrast personal consumption expenditures are seen rising by a moderate 2.0%. Other sectors are not surveyed separately in the poll, but, if combined, the implied total of residential investment, government spending, and inventory change would be up only 0.5% from the 1987 level.

Other Economic Measures. In addition to the components of GNP, economists expect gains in a number of other key indicators during 1988:

* The nominal trade balance is projected to decline to a deficit of $150 billion from $171 billion in 1987.

* A gain of 4.5% is predicted for industrial production in response to the trade and capital spending increases.

* Corporate profits after tax are expected to rise 9.1% following the 8.6% rise last year; this is a sharp upward revision from 3.8% estimate in the prior survey.

* The unemployment rate is expected to average 5.6% down from 6.2% in 1987; after the survey was taken, however, the April reading for civilian workers was reported already to be 5.4%.

A variety of other measures, however, are not expected to show favorable performance.

* Flat to declining volume is anticipated for housing (1.51 million starts) and car sales (10.3 million units); in the latter case, though, the forecast is 0.5 million units above the previous inquiry.

* The budget deficit worsens, but only slightly, to $155 billion versus $150 billion in fiscal 1987.

* Inflation is about the same for both the CPI (4.0% in 1988 versus 3.7% in 1987) and the GNP deflator (3.1% vs 3.0%, respectively), measured with year averages.

* Both short and long term interest rates move to higher average levels with T-bills at 6.1% (compared to 5.8% in 1987) and T-bonds at 9.1% (versus 8.6% in 1987).

Dispersion of the 1988 Forecasts. We use medians as our consensus on the forecast variables shown in Table 1, but some attention should be paid to the dispersion of the forecasts across the panel. To illustrate the range of opinion we averaged the top decile and quartile as well as the bottom decile and quartile of the participating forecasters. For real GNP and the Consumer Price Index, here are the results:

Panel A

	Real GNP		Consumer Price Index	
	1987Q4-1988Q4	1988 Yr. Avg	1987Q4-1988Q4	1988 Yr. Avg
Top 10%	3.5%	3.5%	5.8%	4.8%
Top 25%	3.1	3.3	5.2	4.5
Median	2.3	2.9	4.3	4.0
Bottom 25%	1.5	2.5	3.8	3.8
Bottom 10%	1.2	2.4	3.7	3.6

At present the disagreement about 1988 results is not too great. On the year average basis the top decile's GNP forecast (3.5%) differs from that of the bottom decile (2.4%) by 1.1%; the range on the CPI is about the same--1.2% with the top decile at 4.8% and the bottom at 3.6%. Measured fourth quarter-to-fourth quarter the gaps are wider 2.3% for real GNP and 2.1% on the CPI reflecting differences over the strength of the economy in the second half. Still, there is little sign of boom or bust and the corresponding consequences for price change.

1989 Economic Forecast

In the latest survey we inquired for the first time about forecasts for 1989. The median estimates for all of the key variables are shown in the last column of Table 1.

Real GNP and Sectors. 1989 is projected to be a year of decelerating growth with total GNP slowing to a 2.0% gain over 1988Q4-1989Q4 (versus 2.3% this year) and 2.2% for the year on average (versus 2.9% in 1988). Real net exports are forecasted to improve more rapidly to -$93 billion compared with -$117 billion in 1988 and -$135.5 billion in 1987. Investment spending, however, is expected to grow only 2.5% (down from 8.3% estimated for 1988) and consumer spending continues to expand at 2.0% (the same as the 1988 forecast). All other GNP components show an implied decline of 0.1% versus +0.5% in 1988.

Along with these estimates NABE forecasters look for:

* further improvement in the nominal trade deficit to -$130 billion;
* little change in the federal budget imbalance (-$151 billion),
* lower automobile sales (10.0 million) and housing starts (1.49 million), and
* higher inflation and higher interest rates.

See Table 1 for all of the details.

Dispersion of the 1989 Forecasts. There is a substantially wider range in the 1989 estimates than in those for 1988. Part of the explanation is just that 1989 is the second year in the forecast horizon, but, in addition, there is considerable scope for uncertainty in an aging, long cycle and for disagreements over what sort of policy adjustments may be made over the next 18 months. Here is the same array of deciles and quartiles for 1989 that was presented above for the current year.

Panel B

	Real GNP		Consumer Price Index	
	1988Q4-1989Q4	1989 Yr. Avg	1988Q4-1989Q4	1989 Yr. Avg
Top 10%	3.2%	3.0%	6.7%	6.1%
Top 25%	3.0	2.8	6.1	5.6
Median	2.0	2.2	5.0	4.7
Bottom 25%	0.5	0.8	4.1	4.1
Bottom 10%	-0.3	0.2	3.7	3.7

Next Recession. Despite forecasting slower growth in 1989, there are few forecasts of a decline either fourth quarter-to-fourth quarter or for the year on average. But the majority (57.4%) of respondents see recession beginning sometime in 1989, about the same portion as in the prior survey. Presumably, the decline begins late enough in the year to avoid an overall decrease in 1989, but the impact might be more visible in 1990. By year, NABE forecasters place the recession timing as follows:

Next Recession Begins In:	% of Respondents
1988	5.6%
1989	57.4
1990	31.5
1991	1.9
1992 or later	3.8

Differences Among Forecasters

There are many judgments that go into a macroeconomic forecast. We cross-tabulated the survey results according to several characteristics of the panel to see if we could isolate a portion of the differences. Table 2 presents some of the results.

The major conclusion of this classification is: despite theoretical disputes, different sector conditions, and the divergence of activity among regions, the median forecasts of real GNP and price change are remarkably similar among groups of forecasters; our assessments of data, policies, and economic processes have much in common. A few differences may, nonetheless, be discerned in forecasts, and they are as follows:

* Monetarist forecasters look for less real growth in 1988 and more in 1989 than do Keynesians or the overall sample; most of those who use "other" to identify the theoretical framework designate themselves as "eclectic".

* Forecasters who rely on rational expectations methodology expect the most growth in 1988 as well as the highest inflation in both 1988 and 1989.

* Economists working in the trade, transportation, utilities, and communication industries generally see a bit more real growth and slightly less inflation than do others.

* Interestingly, the business strength in goods-producing activities has not led forecasters in those companies to predict faster growth or inflation than do others.

Quarterly Interest Rate Pattern

About 60% of our panel volunteered interest rate forecasts by quarter for the remainder of 1988 and for 1989. The general expectation is for higher rates in the next several quarters and then a plateau.

Median estimate	1988Q1A	1988Q2	1988Q3	1938Q4	1989Q1	1989Q2	1989Q3	1989Q4
Treasury Bills	5.7%	6.0%	6.3%	6.6%	6.6%	6.8%	6.5%	6.5%
Treasury Bonds	8.6	9.0	9.1	9.4	9.5	9.5	9.5	9.5

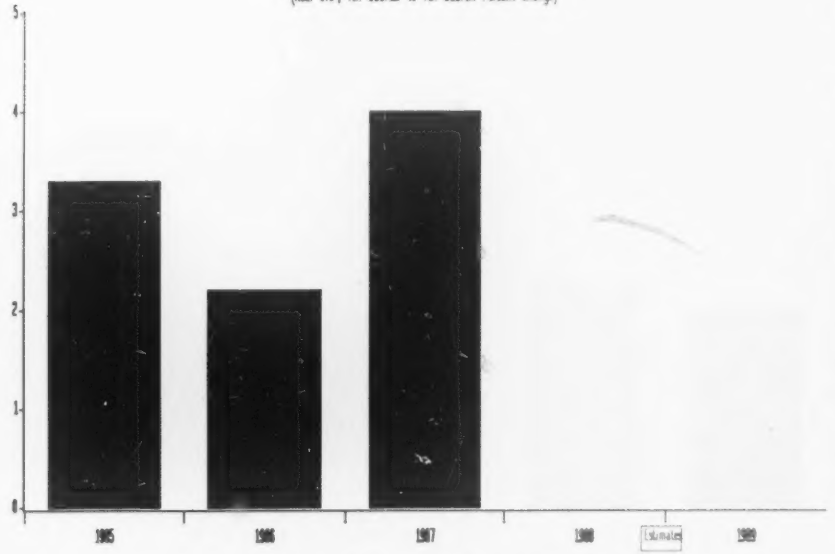
TABLE 2
MEDIAN NABE FORECAST FOR 1988 AND 1989 ACCORDING
TO CHARACTERISTICS OF THE FORECASTERS
(Estimates from Fourth Quarter to Fourth Quarter)

	Real GNP		Consumer Price Index	
	1988	1989	1988	1989
Overall Median	2.3%	2.0%	4.3%	5.0%
Principal Theory Used:				
Monetarist	2.1	2.6	4.3	5.0
Keynesian	2.3	1.9	4.1	4.9
Rational Expectations	2.6	2.1	4.9	5.9
Other	2.5	2.0	4.4	5.0
Sector of Employment:				
Goods-Producing	2.1	1.9	4.3	5.0
TTUC*	2.4	2.2	4.0	4.6
Other services	2.3	2.0	4.4	5.0
Region of Principal Business:				
Northeast	2.3	1.9	4.2	4.7
South	2.3	1.5	4.0	5.0
Midwest	2.5	2.0	4.5	5.2
West	2.4	1.7	4.5	5.0
Throughout U.S.	2.3	2.1	4.4	5.0

* TTUC = trade, transportation, utilities and communications.

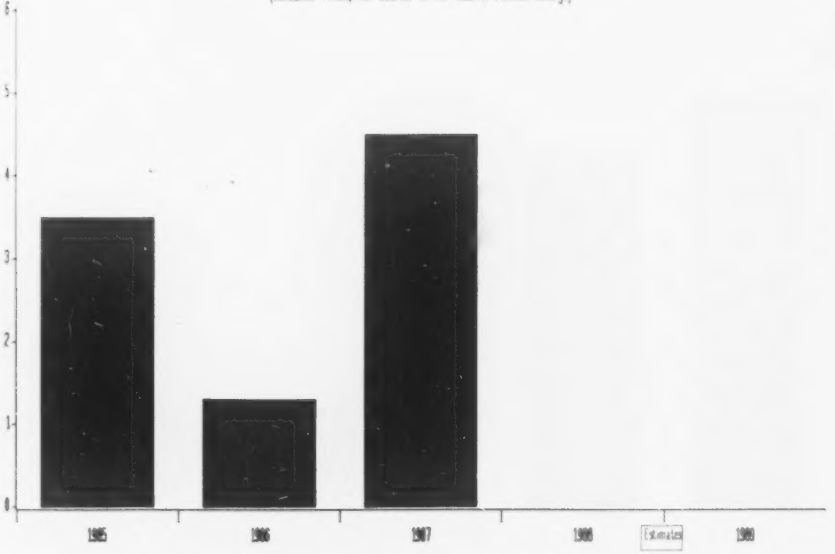
ECONOMISTS FORECAST SLOWER GNP GROWTH

(Real GNP, 4th-Quarter-to-4th-Quarter Percent Change)



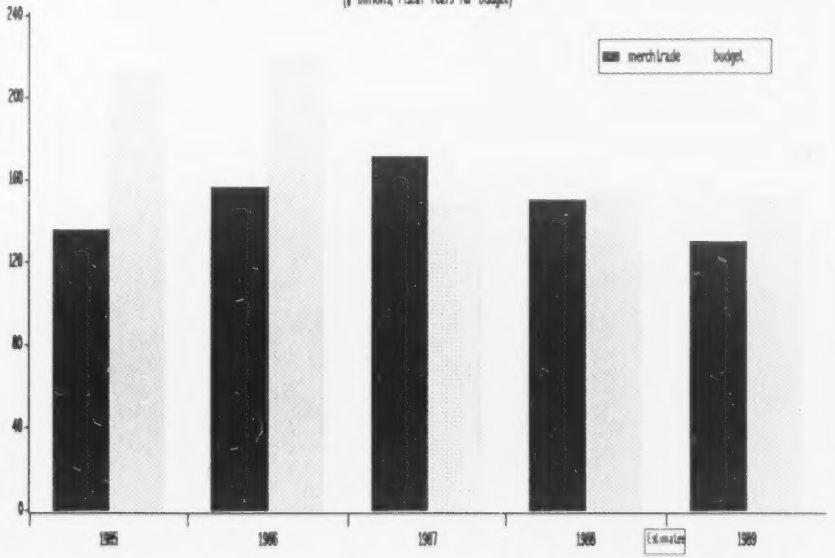
ECONOMISTS PREDICT HIGHER INFLATION IN 1989

(Consumer Prices, 4th-Quarter-to-4th-Quarter Percent Change)



ECONOMISTS FORECAST STEADY BUDGET DEFICIT, BUT DECLINING TRADE DEFICIT

($ Billions, Fiscal Years for Budget)



ECONOMISTS SEE CONSUMPTION, INVESTMENT & TRADE CONTRIBUTING TO GNP GROWTH

(Contributions to Average GNP Growth, as % of GNP)